



DDI-05051/85
Central Intelligence Agency
Office of the Deputy Director for Intelligence

09 October 1985

NOTE TO: Executive Director

FROM: ADDI

SUBJECT: Banding in the DI

In response to your request that the DI explore how banding could be applied in the Directorate, I asked the Plans Group in MPS to consider the case of DI computer/ADP specialists in the IQ career service. I think you might be interested in the attached management study that MPS drafted for me--especially in view of OIT management's decision to band that entire office. The discussions we had after the report was completed led to a DI decision to develop a banding plan for the IQ service that is compatible with whatever OIT develops; we will decide whether to implement the plan when we see what OIT does.

We are concerned that banding OIT will create competition with other components throughout the Agency where there are concentrations of computer specialists. I have asked [redacted] Chief/ASG and head of the IQ career service, to stay in close contact with PMCD and OIT as their discussions on banding OIT develop.

We will be continuing to look at the Agency's experiments with banding in terms of other possible applications in the DI.

[redacted]
Richard J. Kerr

Attachment:
As stated



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EXECUTIVE SUMMARY

25X1 Banding is an experimental Federal pay-for-performance system that parallels pay and promotion practices in private industry. Banding is supposed to improve recruitment, morale, and retention by creating more opportunity for employee advancement and by offering greater monetary incentives for superior performance than in the GS system. The Office of Communications' experiment--which started last January with some [] professional employees, most at lower grades--is the third test of this concept in the Government and the second in the Agency. The DO's Information Management Staff has been banding its GS-5 and -6 clericals for about two and one-half years. And the proposed separate pay system for secretaries is in some ways similar to banding. The Office of Personnel expects that banding will begin in the Office of Information Technology sometime next summer. Personnel views these experiments as learning experiences, and ultimately plans to band the entire Agency--perhaps within five to six years.

It is too early to draw many firm lessons about dollar costs and effects on recruitment and retention, because Commo has just completed its first annual employee evaluation and will soon award the first incremental raises under banding. Employees seem to like banding, and there is some reason to think that it will improve retention. The system has, however, created a new administrative burden because of the complicated and time-consuming annual evaluation of all employees by panel. Other issues, such as whether banding will inflate average grade or create barriers to changing career services, are unclear.

The IQ career service would probably be a good candidate for a banding experiment because of its high number of vacancies and higher than average turnover. The competition that is likely between OIT and IQ once OIT is banded is itself a compelling argument to band the IQ service and to do so in a fashion consistent with OIT's approach. Beyond its budgetary impact, banding probably would require some additional staffing to support the panel evaluation system--although this burden would be small for IQ alone--and it would consume more managerial time. Banding doubtless would help to some extent with IQ's major problem in recruitment and retention--competition with salaries in private industry; but it would not go a long way toward eliminating the "pirating" of IQ employees by Agency contractors.

A better long-term solution to minimize competition among Agency offices for computer specialists--both in hiring and in retaining those on board--would be to band computer professionals throughout the Agency and to standardize hiring guidelines and payscales for these specialists.

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I. BANDING: THE HOW AND WHY

In simplest terms, "banding" is an experimental Government "pay-for-performance" system that parallels pay and promotion practices for professional employees in most of private industry. Instead of 15 GS pay levels, there are a small number of "bands," or different performance levels with increasing amounts of responsibility. For most jobs, four or five bands can be identified, beginning with the trainee level and progressing upward through journeyman, non-supervisory expert, the first supervisory level, and ending with management.

Within each band, there are a far larger number of "increments" of pay than the current 10 GS steps. Pay ranges within each band are typically between 40-60%, broader than the 30% spread within each GS grade. There are no automatic pay raises (as step increases have for all practical purposes become under the GS system). Management evaluates each employee's performance annually, deciding how many increments to increase the employee's pay or whether to do so at all. Generally, there are limits on the number of increments an employee can move up each year. Movement from one band to another band (from one level of responsibility to the next) is separate from this annual evaluation exercise. Movement to the next higher band does not necessarily mean a pay raise because an employee typically enters the new band at the pay increment that most closely matches his current salary; but management has the flexibility to confer a pay raise by placing the employee at a higher increment.

How Commo's Experiment Works

25X1 The Office of Communications began a five year-experiment with banding last January. A major "publicity drive" accompanied its introduction. Commo's system applies only to one job specialty, Telecommunications Officer, affecting some [] employees between grades GS 6-15, but most at the relatively low grades. The system will probably be expanded this spring to include technicians and engineers. The ultimate objective is to band the entire Office. Commo expects that, for the time being, employees will be able to move freely between jobs that remain GS-graded and those that are banded on the basis of the closest equivalent salary.

Commo has established four bands:

- Band 1, formerly GS grades 6/1 - 8/10: Trainee.
- Band 2, formerly GS grades 9/1 - 11/10: Journeyman.
- Band 3, formerly GS grades 12/1 - 13/10: Non-supervisory expert.
- Band 4, formerly GS grades 14/1 - 15/10: First supervisory level.

Each band has 30 pay increments; there is an average difference between them of about 1.5%. Because the system preserves some of the structure of the GS system, payroll can accommodate it easily.

There are four evaluation panels, one for each band or performance level, that meet annually to consider all employees in their respective bands. Each

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25X1 panel has a chairman, three members chosen from the supervisory ranks, and a secretary. Panel workloads vary considerably depending on the number of people in each band--there are [] at supervisory level 4 and over [] at level 2--and the evaluation process itself can take anywhere from one day to three weeks for a panel to complete. 25X1

At annual evaluation time, Commo panels weigh three factors when deciding whether to reward an employee with an incremental raise: the employee's performance in a strict professional certification program (the employee must qualify in five mandatory skills plus three out of 13 "electives"); the numerical PAR score and category ranking; and those intangible factors a supervisor chooses to include in the PAR's narrative section. The panel can award an employee a maximum of four increments each year, but it can also choose to award none. If a panel awards none, Commo hopes to provide for the equivalent of a GS periodic step increase that will match one or two increments within the band--depending on the Office's budget situation.

Commo's experiment is modeled after the only other active one in the Government for professionals, that involving two Navy laboratories in California. The Navy experiment has been underway for almost six years and involves some 10,000 employees, primarily engineers and administrators. The GAO has the authority to implement some form of banding and has been trying to do so for several years; a few other military organizations have permission to start banding but are not actively pursuing it. The DO's Information Management Staff has had a banding system in place for about 2 1/2 years, but it is limited to clericals at grades GS-5 and -6.

Why Band at All?

In the private sector, the purpose of banding is primarily to improve employee performance and productivity by giving managers more flexibility to reward superior employees and withhold rewards from those who are below average. Also important is the fact that managers are directly accountable for "people costs," that part of the organization's budget that goes for salaries, an important factor in profitability.

In the Navy experiment, the primary motivation for instituting banding was to boost recruitment and improve retention by offering greater monetary incentives. The Navy laboratories began with vacancy rates for engineers of about 50%. Banding has cut this to about 10%. There appears also to be some improvement in retention, but this has been slight. Surveys of Navy employees show an overall acceptance rate for banding of about 80%. Of those, some 40-50% of employees strongly support the concept.

The Office of Communications began banding seven months ago because of the same concerns that the Navy had. Commo found that its problems with GS grading and grade-point allocation, plus those with headroom for promotions and the long waits for step increases at the upper ends of GS pay grades, had made the Office uncompetitive for telecommunications officers in the Federal and private marketplaces.

While it is too early to see any results from Commo's experiment, an initial employee attitude survey taken earlier this year indicated a general acceptance

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of the system. (At the time of conversion, most Commo employees got some salary boost, and there was much favorable publicity surrounding the concept.) The first real assessment from the employees' point of view will come after initial pay-outs of incremental raises are made following annual evaluations. Commo completed its first annual evaluation in mid-September, and the next employee survey, which will assess reaction to the pay-outs, will not be completed until early 1986.

II. IQ CAREERISTS: CANDIDATES FOR BANDING?

Subject to budgetary limits, Agency regulations permit significant flexibility in the way a component can administer a pay-for-performance program. A number of variations from Commo's model are likely as Office of Personnel begins the next Agency experiment in banding that will involve the entire Office of Information Technology.

-- In the initial experimental phase, PMCD will be very reluctant to permit the establishment of bands that cut across GS grade levels. PMCD fears that this would blur the equivalencies they must establish between occupational job specialties throughout the Agency. But these strictures will probably disappear as OP gains more experience and as it heads toward its ultimate goal, to band the entire Agency.

-- For the time being, OP probably will not insist that there be limits on movement within bands from one increment to another, or between bands themselves.

-- At least in this experimental phase, PMCD wants to apply banding to relatively cohesive and similar "occupational families." IQ careerists would probably fit this definition even though they are engaged in many different types of computer applications because the same four occupational codes for computer specialists are assigned to nearly all IQ slots.

-- The career service itself, however, may not be enough in the "mainstream" of the DI's work to satisfy entirely the ExDir's interest in a DI banding experiment. (We understand that he was thinking along the lines of PMCD's suggestion to him that DI analysts be a test group.)

The IQ Profile

At the end of July 1985, the IQ Career Service numbered slots and people in DI Offices and two other Directorates. Slightly more than one-third of these careerists and slots were in ASG; but there were also substantial numbers of IQ slots and people in OCR, OGI, and OSWR:

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What IQ is Doing Now

The IQ career service appears to be making good use of the management tools and flexibility the system now offers to deal with its recruitment and retention problems. These measures include:

The GSP pay scale: One thing that may help to reduce turnover in the IQ career service in the long run is the inclusion of computer science professionals in the Physical Science Pay Schedule (GSP). This provision was authorized by the Director of Personnel to make CIA more competitive with other Federal agencies as well as with the private sector. Except for a few computer programmer positions in OCR (which OCR could redesignate to qualify them for this pay scale), all IQ slots through GS-11 became eligible for preferential pay under this schedule in early June 1985. It will almost certainly be necessary for the foreseeable future to have some form of preferential pay for computer specialists--even under banding--because they are in such high demand in the private sector.

Depending on grade and step, employees under GSP can receive salaries that are up to 8% greater than regular GS pay rates. To qualify, however, an employee must have at least a baccalaureate degree specifically in "computer science." Office of Personnel has been very strict in applying this educational requirement, permitting few exceptions even when employees hold degrees in closely related specialties or have an equivalent degree from a university which does not confer one in computer science. Since the GSP pay scale went into effect last June, the Office of Personnel has turned down four ASG requests to certify an employee for the GSP pay system. For example, one current employee who recently received a degree in computer systems applications was apparently refused on the grounds that she had not studied enough math, although her transcript includes a number of courses in advanced mathematics.

Although it has been in effect only for a few months, the new pay scale already seems to be helping with recruitment. ASG is finding that its entry salaries are now more comparable with those in private industry except for graduates from the best schools. In the latter case, the salaries we can offer are often substantially below those of other employers. Even special hiring guidelines--which allow us to bring a computer specialist on board at up to five pay steps higher than the norm because of superior academic performance, graduate study, higher scores on the Brandon-Wolfe Aptitude Test, and/or previous work experience--have not made our entry salaries attractive enough to candidates from the best schools. Equally distressing, however, is the fact that there is open competition between Agency Offices for computer specialists. For example, OIT's hiring guidelines permit them to offer applicants with identical credentials entry salaries that are three to four GS pay steps higher than the IQ is offering.

The GSP pay scale does not help IQ retain employees already on board. Few IQ careerists are eligible for GSP pay either because they do not hold a degree in computer science or because their equivalent degree is not acceptable to Office of Personnel. Even for IQ employees who have an acceptable degree and have been able to convert to the GSP payscale, there has been no monetary advantage. This

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is because conversion from the GS to the GSP pay scale is based on an employee's GS salary, not on his or her GS pay step; so, when converting, employees often regress several pay steps and therefore get no salary increase. (This does often lessen waiting time, however, for the employee's next step increase and allows higher pay before the employee ceases to get step increases.) Even more important is the fact that the GSP pay scale does not apply to grades GS-12 and above, where there are substantial vacancies.

Accelerated promotions: From FY 83 to FY 84, the IQ career service made progress in reducing the average time-in-grade between promotions, and it is now somewhat less at most grades than for many other DI career services. In April 1985, IQ instituted new guidelines that further reduced time-in-grade requirements for grades GS-10 through GS-15 by 1-7 months in comparison with the DI standard. The new IQ guidelines are substantially the same as those that OIT is using. The IQ service plans to make aggressive use of these minimum guidelines to accelerate promotions further.

Special awards: IQ managers concentrate on granting special awards rather than QSIs because special awards generally net more money for an employee, especially at the lower grades, and they are easier to process through the system. From May 1984 to the present, the service made four exceptional accomplishment and seven special achievement awards ranging from \$250-\$1000--all but two at \$500 and above. This is slightly above the average for other DI offices.

III. BENEFITS AND DRAWBACKS OF BANDING

Lessons Commo Has Learned

Banding has permitted Commo to offer more potential for advancement to a number of lower graded employees whose careers "top out" early in the GS system (grade 11) and who often retire at the earliest opportunity, creating serious shortages of experienced officers. Employee morale may also have improved somewhat, but this is less clear.

There also have been negative side effects--the major one being the administrative burden that banding creates. Annual evaluations of all employees are done by panels and the whole process seems even more complicated than that in the DO. One complaint is that evaluations are based solely on performance criteria, which are harder to deal with than factors such as time-in-grade. Some of this new administrative burden may lessen as the Agency gains more experience with banding, however.

During this experimental phase, other issues remain unclear. For example, there are only informal controls now on Commo's Career Service Grade Authorization ("average grade"), and it is uncertain whether banding will inflate average grade over the long term. Average grade may not increase at all because, under banding, there is less pressure than in the GS system to promote employees just because they have reached the higher step levels of their current grade and must wait a long time for a step increase. Because banding is budget-driven, dollar cost will ultimately prove more important than the concept

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of average grade, however.

There is still a certain psychological resistance to banding among some Commo employees. Many apparently feel that receiving "increments" at annual evaluation time is not as tangible a benefit as getting a promotion under the GS system, despite the salary increase. Some form of special award ceremony might fill this gap.

Over the long term, it seems clear that there will have to be refinements to Commo's experiment because of budgetary realities. For example, it probably will be necessary to limit movement beyond the midpoint of a band to a very small number of superior persons; if many employees were to reach increments beyond the midpoint of a band, Commo calculates that there could be little money left for rewarding superior performance after base salaries are paid. In lean budget years, there also might not be much money available for the equivalent of a periodic step increase for employees who do not get incremental raises.

What About IQ?

The primary argument for moving ahead now with banding the IQ career service is to prepare for the competition with OIT that probably will result once OIT is banded. This is a very real possibility because IQ employees already "jump ship" to OIT when they perceive they might make additional money there. The Office of Personnel claims that this a big concern, and that they will be monitoring the situation very closely.

Based on the experiences of the Navy and of Commo, banding IQ could stimulate a more positive employee attitude and improve morale and retention. It could also help to attract more and better qualified people to IQ--not only because of the potential monetary rewards the system offers, but also because employees perceive a panel evaluation system to be fair and objective. Over the long term, employee enthusiasm about banding is an open question. Only superior performers will benefit from banding; the average performer may in fact be worse off than under the GS pay system.

One disadvantage is dollar cost, especially in lean budget years. Banding certainly will not cost less than the current system, and it could well be more expensive. Opinions in Commo are divided on this question and, until Commo has a few more annual evaluations under its belt, no hard figures on cost will be available. Any additional expense involved with banding IQ would be modest, however, because of the relatively small number of IQ careerists.

Banding would also require some considerable administrative changes in the DI personnel evaluation system. Chief/ASG believes that it might prove very difficult to develop necessary detailed job, performance, and skill specifications for the IQ service because of the wide diversity of people and jobs within IQ. Some additional staffing would probably be necessary to support the evaluation panels, and Chief/ASG believes that IQ managers at all levels would have to devote considerably more time and energy to the process. On balance, because of IQ's size, the new administrative burden appears manageable; and banding IQ would give the DI some valuable experience with a performance-based promotion system that we have always shied away from on the grounds that it would be too difficult to make such a system truly objective.

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There are other considerations which we cannot assess now because of the Agency's limited experience with banding. For example: Would banding erect barriers to changing career services? Would it foster resentment among employees in other career services that remain on the GS system? Over the long term, would employee acceptance of the system remain high? Introducing a panel system also might reduce the importance of the supervisor's evaluation of an employee and thereby undercut his or her authority with possible adverse effects on individual and unit productivity. On the other hand, it could lead to a performance appraisal process that deals more honestly with weaknesses as well as strengths.

IV. MPS RECOMMENDATION

Competition with salaries in private industry--both in hiring new employees and in retaining those on board--remains the IQ service's biggest problem, and banding probably will do little to remedy this. Where banding IQ could help is with the drain from the IQ service to other Agency offices. This is not a serious problem now but it could become one once OIT begins banding. For this reason alone, we recommend developing a trial banding scheme for the entire IQ service that would include at least some "soft" cost estimates. This scheme should be consistent with OIT's plans. Alternatively, if the costs of such an experiment appear too great, we propose leaving the GSP pay scale in place for those through grade GS-11 and consider banding only for grades GS-12 through 15. Chief/ASG recommends that the IQ service implement banding only when OIT does; we think a decision on that can be made once the trial scheme has been developed.

A better long-term solution that would minimize the demand for IQ personnel from other Agency offices would be to band computer professionals throughout the Agency. We recommend that you express concern immediately to the Director of Personnel about the repercussions that banding OIT alone might have. Moreover, we recommend that you seek an active role for the DI in the deliberations between PMCD and OIT--perhaps naming a DI officer as focal point--to help shape the concept. Apart from the banding issue, the IQ service should immediately begin to use the same hiring guidelines that OIT uses. It also would be useful to reach a better accommodation with OP on the question of which equivalent degrees would qualify an employee for the GSP pay system. And Chief/ASG underscores the need to take measures to address the pirating of IQ employees by Agency contractors; this could include upgrading certain lower paying slots, and either prohibiting ex-Agency people from working on CIA contracts for several years after separation or (preferably) cancelling all Agency clearances upon separation and requiring a complete reinvestigation.

A list of these recommendations is appended for discussion and/or decision.

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MPS RECOMMENDATIONS

- Develop a trial banding scheme for the entire IQ career service that is consistent with OIT's plans and that includes at least some "soft" cost estimates.
- Develop the same trial banding scheme with cost estimates for the IQ service for Grades GS-12 through -15 only.
- Express concern immediately to the Director of Personnel about the repercussions that banding OIT alone might have, advocating instead the banding of computer professionals throughout the Agency.
- Seek an active role for the DI in deliberations on banding between PMCD and OIT, perhaps naming a DI officer as focal point, so we can help shape the concept.
- Direct IQ to begin using immediately the same hiring guidelines that OIT uses.
- Negotiate with the Office of Personnel to reach a better accommodation on equivalent college degrees that will qualify IQ careerists for the GSP preferential pay scale.
- Undertake a study of measures that could help stem the "pirating" of IQ employees by Agency contractors.

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